

Message Text

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17

ACTION EA-14

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TO SECSTATE WASHDC 2986

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E.O. 11652: N/A

TAGS: EFIN, AS

SUBJ: PROPOSALS FOR UNPEGGING AUSTRALIAN DOLLAR

REF: (A) CANBERRA 0248 (B) CANBERRA 3578, JUNE 29, 1973

1. BEGIN SUMMARY. OVER PAST MONTHS THE GOA HAS IGNORED VARIOUS DEMANDS THAT THE TIE BETWEEN THE AUSTRALIAN AND U.S. DOLLAR BE DISSOLVED, AND THE AUSTRALIAN DOLLAR ALLOWED IN SOME FASHION TO "FLOAT". AS THE EMBASSY HAS REPORTED THERE HAS BEEN NO GOOD ECONOMIC CASE FOR SUCH ACTION, ALTHOUGH THE POSSIBILITY COULD NEVER BE ENTIRELY EXCLUDED THAT SOME TOKEN ACTION OF THIS KIND MIGHT BE TAKEN FOR DOMESTIC POLITICAL REASONS. IN THE PAST FEW WEEKS THE TEMPO OF THESE PROPOSALS HAS INCREASED. MOST NOTABLY THE TWO MAJOR OPPOSITION PARTIES LIBERAL AND COUNTRY HAVE FORMALLY CALLED FOR UNTYING THE AUSTRALIAN DOLLAR AND FOR EVENTUAL ESTABLISHMENT OF A FREE FOREIGN EXCHANGE MARKET IN AUSTRALIA. NOW THAT THE PARLIAMENT HAS BEEN DISSOLVED AND AUSTRALIA SUDDENLY FACES A GENERAL ELECTION IN MAY THIS OPPOSITION POSITION TAKES ON ADDED

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WEIGHT. THERE IS STILL NO PARTICULAR ECONOMIC REASON FOR UNTYING

THE DOLLAR AND THERE IS CERTAINLY NO ECONOMIC REASON FOR AN EFFECTIVE DEVALUATION, WHICH MOST PROPONENTS OF UNTYING APPEAR TO ASSUME WOULD BE ENTAILED BY SUCH ACTION. BHT THE RELATIVE IMPORTANCE OF THE POLITICAL FACTOR IN THIS EQUATION HAS INCREASED IN TODAY'S POLITICAL SITUATION. WHILE IT STILL SEEMS IMPROBABLE THAT THE GOVERNMENT WILL MOVE ON THIS MATTER, THE ODDS AGAINST SOME ACTION SUCH AS UNTYING THE DOLLAR IN ORDER TO DEFUSE THE POLITICAL ISSUE HAVE SOMEWHAT SHORTENED IN THE PAST TWO WEEKS. END SUMMARY.

2. OVER THE PAST 12 MONTHS THERE HAVE BEEN PERIODIC CALLS FROM FROM AUSTRALIAN ACADEMIC, BUSINESS AND JOURNALISTIC SOURCES FOR SEPARATING THE AUSTRALIAN DOLLAR FROM ITS PRESENT TIE TO THE U.S. DOLLAR. THESE PROPOSALS HAVE VARIOUSLY CALLED FOR QTE FLOATING END QTE THE AUSTRALIAN DOLLAR OR FOR SETTING UP A MECHANISM BY WHICH THE RESERVE BANK WOULD FIX A DAILY RATE TO MAINTAIN SOME SELECTED RELATIONSHIP TO A WEIGHTED AVERAGE OF OTHER CURRENCIES OF IMPORTANCE TO AUSTRALIA'S TRADE. MOST OF THESE PROPOSALS HAVE COME FROM SOURCES WHICH WOULD FAVOR A CHANGE IN AUSTRALIA'S TERMS OF TRADE IN FAVOR OF AUSTRALIA'S EXPORTS. FOR THIS REASON MOST PROPONENTS OF UNTYING APPEAR TO ASSUME THAT THIS ACTION WOULD ENTAIL SOME DEGREE OF DE FACTO DEVALUATION.

3. TO DATE THE TREASURER HAS DISMISSED ALL SUCH PROPOSALS. THE EMBASSY, AS INDICATED IN ITS EARLIER REPORTS, PERCEIVED NO ECONOMIC POLICY REASONS WHY THE GOA WOULD BE ATTRACTED TO SUCH PROPOSALS, GIVEN ITS OVERRIDING INTEREST IN RESISTING AUSTRALIA'S SERIOUS CURRENT INFLATION AND THE FACT THAT THE RELATIVELY STRONG PERFORMANCE OF THE U.S. DOLLAR WAS CONSISTENT WITH THE GOA'S EXCHANGE RATE OBJECTIVES IN THIS RESPECT.

4. FROM AN ECONOMIC STANDPOINT THE SITUATION IS STILL THE SAME. NOTWITHSTANDING THE SHARP APPRECIATION OF THE AUSTRALIAN DOLLAR AS THE RESULT OF UPWARD REVALUATIONS IN 1972 AND 1973, A SERIES OF OTHER MOVES ENCOURAGING IMPORTS, AND SEVERE LIMITATIONS ON THE INFLOW OF FOREIGN CAPITAL, THE AUSTRALIAN BALANCE OF PAYMENTS REMAINS VERY STRONG. WHILE THE POLICY MIX ADOPTED BY THE GOA HAS HALTED THE BUILD-UP OF RESERVES SO MARKED IN 1972 AND 1973, THERE HAS BEEN ONLY A MARGINAL RUNDOWN IN THESE RESERVES DESPITE A MODEST LIMITED OFFICIAL USE

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CAPITAL OUTFLOW AND A SHARP INCREASE IN THE VALUE OF IMPORTS. DURING THE EARLY MONTHS OF 1974 EXPORTS WERE HOLDING FIRM AT A VERY HIGH LEVEL AND NOTWITHSTANDING THE UPWARD TREND OF IMPORTS, EXPORTS STILL SIGNIFICANTLY EXCEEDED IMPORTS ON A MONTHLY BASIS THROUGH FEBRUARY.

5. BUT THERE HAS HOWEVER BEEN ONE SIGNIFICANT CHANGE IN THE SITUATION SINCE THE EMBASSY'S EARLIER REPORTS (REFTELS). DURING

THE PAST TWO WEEKS THE MAJOR OPPOSITION PARTIES HAVE COME OUT IN STRONG SUPPORT OF PROPOSALS FOR UNPEGGING THE AUSTRALIAN DOLLAR. THEY HAVE ENDORSED THE IDEA OF ESTABLISHING THE FUTURE AUSTRALIAN DOLLAR EXCHANGE RATE ON THE BASIS OF A WEIGHTED AVERAGE OF THE CURRENCIES OF AUSTRALIA'S MAIN TRADING PARTNERS, AND EVENTUALLY THE ESTABLISHMENT OF A FOREIGN EXCHANGE MARKET IN AUSTRALIA. THE SIGNIFICANCE OF THIS OPPOSITION STANCE IS HEIGHTENED BY THE FACT THAT AUSTRALIA NOW FACES A SUDDENLY-SCHEDULED GENERAL ELECTION IN MAY.

6. WHILE THE ECONOMIC CASE FOR CHANGING THE CURRENT EXCHANGE RATE ARRANGEMENT IS UNCHANGED, THE QUESTION OF PROBABLY GOA ACTION ON THIS ISSUE HAS ALWAYS DEPENDED UPON A POLITICAL AS WELL AS AN ECONOMIC VARIABLE. THE BEHAVIOR OF GOA NOW THAT IT FACES A CAMPAIGN LEADING TO GENERAL ELECTIONS IS EVEN LESS PREDICTABLE THAN WAS EARLIER THE CASE. THERE IS STRONG FEELING ON THIS ISSUE IN AGRARIAN, INDUSTRIAL AND EXPORT CIRCLES, WHICH VIEW THE CURRENT EXCHANGE RATE ARRANGEMENT VARIOUSLY AS PENALIZING AUSTRALIA'S AGRICULTURAL AND INDUSTRIAL EXPORTS AND FOSTERING RUINOUS IMPORT COMPETITION. UNDER THESE CONDITIONS THE CHANCE IS INCREASED THAT THE GOVERNMENT MIGHT DECIDE TO MAKE A PLACATORY GESTURE TO DEFUSE THIS ISSUE. THIS PURPOSE COULD BE SERVED BY DISSOLVING THE TIE BETWEEN THE AUSTRALIAN AND THE U.S. DOLLAR, WHETHER OR NOT THE RESERVE BANK FORMULA FOR SETTING THE EXCHANGE RATE SETTINGS APPRECIATED, DEPRECIATED OR MERELY STABILIZED THE AUSTRALIAN DOLLAR IN RELATION TO A BASKET OF TRADING CURRENCIES.

7. THE GOVERNMENT HAS NOT SPECIFICALLY RESPONDED TO THE OPPOSITION'S RECENT STATEMENTS ON THIS POINT. PENDING FURTHER DEVELOPMENTS, THE EMBASSY WOULD STILL ADHERE TO THE COMMENTS MADE IN PARA 4 OF REFTEL (A) TO THE EFFECT THAT IT SEEMS UNLIKELY THE GOA WILL AT THIS TIME MODIFY THE PRESENT DOLLAR ARRANGEMENT. BUT THE GROWING PROMINENCE OF THIS ISSUE IN THE HEAT OF A PARTISAN POLITICAL LIMITED OFFICIAL USE

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CAMPAIGN PROBABLY SHORTENS THE ODDS AGAINST A COSMETIC ACTION WHICH WOULD SEPARATE THE AUSTRALIAN DOLLAR FROM THE U.S. DOLLAR ON SOME BASIS WHICH WOULD AVOID A NECESSARILY INFLATIONARY IMPACT.
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